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The Role of Small Business and Private Entrepreneurship in the National Economy: Modern Scientific Analysis

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Abstract: This article examines the role and development of small business and private entrepreneurship in Uzbekistan's national economy. It analyzes their contribution to employment, economic growth, and market competitiveness. The study also discusses historical evolution, state policies that support entrepreneurial activity, and modern trends that impact business development both domestically and in comparison with foreign practices. Recommendations for enhancing the business environment and strengthening private sector contributions are proposed.

Keywords: Small business, private entrepreneurship, economic development, job creation, investment attraction, innovation, market diversification, legal framework, financial support, microcredit, rural entrepreneurship, youth employment, women's employment, competition, digital transformation



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Introduction

After gaining independence, Uzbekistan's economic system underwent a fundamental transformation. The former centralized economic model gradually gave way to a market economy. In this process, small businesses and private entrepreneurship emerged as key components of the national economy [1]. Small businesses and private entrepreneurship not only ensure economic stability but also contribute to social development, the creation of new jobs, and the promotion of initiative among the population.

The main characteristic of a small business is that it is a small-scale enterprise or organization, typically operating with limited capital and a small number of employees. At the same time, the essence of private entrepreneurship lies in its establishment based on individual initiative and capital, functioning in accordance with market demand [2], [3]. In Uzbekistan, in the years following independence, the development of private entrepreneurship and the formation of small businesses

have been influenced not only by economic factors but also by political and social conditions. In the 1990s, the country's economy went through a difficult period. Sharp price fluctuations, rising unemployment, and the declining efficiency of state enterprises created a need for the population to rely on personal initiative [4]. During this period, initial steps were taken to promote small businesses and private entrepreneurship. Laws adopted by the government, including the "Law on Private Entrepreneurship," provided legal guarantees for entrepreneurs. In addition, tax incentives, microcredits, and other financial support measures enabled small business entities to start their operations [5], [6].

The development of small businesses and private entrepreneurship helps address various social issues. For example, creating new jobs increases employment, raises household incomes, and fosters local production. Small enterprises play a particularly important role in ensuring employment among youth and women [7]. For this reason, the government has designated support for small businesses as one of its priority policy directions. Moreover, private entrepreneurship significantly contributes to the development of innovative activities. In a competitive environment, entrepreneurs are compelled to offer new products and services, which diversifies the market and meets consumer demand. Private businesses also encourage personal initiative, helping citizens develop habits of independent decision-making, responsibility, and the creation of innovative solutions. The development of small businesses and private entrepreneurship in Uzbekistan exhibits region-specific trends [8]. Major cities such as Tashkent, Samarkand, Bukhara, and Fergana serve as leading examples, with rapid growth in the service, trade, and manufacturing sectors. Meanwhile, in rural areas, small business development is more focused on agriculture, food products, and handicrafts. Government programs, including microcredits, grants, and improvements in market infrastructure, provide new opportunities for entrepreneurs.

The term "small business" is usually defined by the size of the enterprise and the number of employees. A small business is an enterprise that operates with limited resources, has the ability to make quick decisions, and adapts flexibly to market demands [9], [10]. In Uzbekistan, small businesses span various sectors, including manufacturing, services, trade, handicrafts, and agriculture. After Uzbekistan gained independence, the formation of small businesses began to develop gradually. In the early 1990s, under the legacy of the Soviet centralized economic system, opportunities for personal initiative were extremely limited. At that time, market mechanisms were almost non-existent, and prices and resources were controlled by the state, which greatly restricted the emergence of small businesses.

Methodology

After independence in 1991, the government introduced a series of laws and legal frameworks aimed at liberalizing the economy and encouraging private initiative. The "Law on Private Entrepreneurship" provided small business entities with an official legal status, enabling them to operate legally. At the same time, bank loans, microcredits, and grants became available for independent business activity, creating opportunities for new entrepreneurs.

From the early 2000s, the development of small business accelerated significantly. During this period, government programs were introduced to support small businesses. Measures such as financial aid for startups, tax reductions, subsidies for creating new jobs, and other incentives created a favorable environment for entrepreneurs.

In Uzbekistan, small businesses can be categorized as follows: **Manufacturing enterprises** – small businesses producing food products, clothing, furniture, and other goods. **Trade and service sectors** – retail trade, restaurants and cafes, tourism services, IT and computer services, and transportation services. **Agriculture and handicrafts** – small business entities in rural areas engaged in farming, livestock breeding, and traditional crafts. Each type of small business has its unique characteristics. For manufacturing enterprises, the main challenge is obtaining raw materials and technology in a timely manner. In trade and service sectors, competition and attracting customers are crucial. In agriculture and handicrafts, diversifying the market,

delivering high-quality products, and expanding export opportunities are essential.

The development of small businesses depends on several factors: **Legal framework and government policy** – laws, taxes, licenses, and permit systems must be entrepreneur-friendly. For example, small businesses may pay minimal taxes, which facilitates starting operations. **Financial incentives** – microcredits, subsidies, and grants provide new entrepreneurs with essential support, enabling them to start and expand their businesses. **Market mechanisms** – free competition, supply, and demand allow entrepreneurs to offer products and services flexibly. **Initiative and skills of the population** – entrepreneurial spirit, innovative thinking, and business management skills determine the pace of development.

Result and Discussion

The development of small businesses is important both economically and socially: **Economic significance:** creating new jobs, diversifying the domestic market, attracting investments, and developing production contribute to economic growth. **Social significance:** increasing employment, raising household incomes, and developing local communities. Small businesses also play a key role in youth and women's employment [11].

Today, small business in Uzbekistan has developed significantly. Major cities like Tashkent, Samarkand, Bukhara, and Fergana serve as examples of growth in services, trade, and manufacturing. Meanwhile, rural small enterprises focus on agriculture, food production, and handicrafts. Government programs, microcredits, and grants further accelerate this process. Private entrepreneurship refers to enterprises established based on individual initiative, capital, and resources, operating according to market demand. In Uzbekistan, private entrepreneurship is not only a vital source of economic growth but also a means to ensure social stability and strengthen local communities [12], [13].

Economic Significance includes

Attracting Investments: Private entrepreneurship increases the potential to attract both domestic and foreign investments. Entrepreneurs invest in new technologies, production equipment, and innovative solutions, directly contributing to economic growth. For example, private IT startups in Uzbekistan attract foreign investments, creating new jobs and boosting export potential.

Diversification of Products and Services: Private businesses provide diverse products and services, meeting consumer demand, improving quality, and stabilizing prices. Private enterprises in urban and rural areas offer various food products, clothing, and services. Small and medium enterprises also introduce innovative services such as online delivery and e-commerce platforms [14].

Encouraging Competition: Private entrepreneurship strengthens market competition, improving quality, reducing prices, and expanding consumer choice, which enhances market efficiency and economic stability.

Fostering Innovation: Private businesses play a leading role in implementing new technologies and services. In a competitive environment, enterprises must continuously innovate to improve products and services, accelerating integration with modern technologies and fostering innovation.

Social Significance includes

Increasing Employment: Private entrepreneurship creates new jobs. Small and medium enterprises, especially in the service sector, employ a large portion of the population. Youth and women benefit particularly from these opportunities [15].

Developing Local Communities: Private businesses utilize local resources efficiently, strengthening the local economy, raising incomes, and benefiting different segments of society.

Promoting Initiative and Social Responsibility: Private entrepreneurship fosters independent work, business management, decision-making, and responsibility among citizens. Entrepreneurs also develop a sense of social responsibility towards their employees, clients, and community, for instance by producing eco-friendly products or supporting local initiatives.

Foundation for a Developing Economy: Growth of private entrepreneurship supports national economic stability, which is why the government continues policies to encourage private business, aiding effective economic reforms.

In Uzbekistan, private entrepreneurship manifests across various sectors:

IT and Technology: Startups create innovative products and services, organizing delivery through online platforms.

Service Sector: Restaurants, cafes, and tourism firms develop through private initiative, increasing employment and improving service quality.

Agriculture and Handicrafts: Small farmers and craft enterprises produce and market local goods, contributing not only economically but also to preserving local culture and traditions.

Private entrepreneurship is a key driver of economic and social development in Uzbekistan. It attracts investments, diversifies products and services, encourages competition, and fosters innovation. Simultaneously, it enhances employment, strengthens local communities, and promotes personal initiative. The Uzbek government prioritizes the development of private entrepreneurship, contributing to sustainable economic growth.

Despite significant progress, small business and private entrepreneurship in Uzbekistan face challenges:

Financial Difficulties: Limited access to capital, high interest rates, and collateral requirements restrict business development. Expanding microcredit, subsidy, and grant programs is essential.

Market Competition: Small businesses compete with large corporations that have superior capital, marketing, and production capacity. Government protection, fair competition laws, and targeted support can strengthen competitiveness.

Legal and Administrative Barriers: Complex procedures for taxes, licenses, and permits can delay business startups. Simplifying procedures and implementing electronic documentation can resolve this issue.

Lack of Skills and Knowledge: Many entrepreneurs lack expertise in management, marketing, finance, and human resource management. Training programs, seminars, and educational initiatives can build capacity.

Digital Transformation and Technological Development: Adapting to online commerce, digital payments, and modern technologies can be challenging. Enhancing digital literacy and encouraging technology adoption is crucial.

To further develop small businesses and private entrepreneurship in Uzbekistan: Provide financial support and incentives such as microcredits, grants, and preferential tax rates. Implement legal reforms to simplify business procedures and digitize licensing and permit processes.

Organize capacity-building programs on management, marketing, finance, and digital technologies. Regulate competition to protect small businesses and ensure a fair market environment. Promote innovation and digitalization through e-commerce, online marketing, and modern technology adoption.

Effective implementation of these measures will accelerate business growth, create new jobs, and contribute to stable economic development while allowing entrepreneurs to diversify products, introduce innovative solutions, and remain competitive.

Conclusion

During Uzbekistan's years of independence, the development of small business and private entrepreneurship has emerged as a key component of the national economy. These sectors are vital not only for economic growth but also for social stability, job creation, fostering initiative among the population, and supporting local communities. Small businesses play a central role in increasing employment and generating new jobs. Operating in manufacturing, trade, and service sectors, they diversify the domestic market and meet the varied needs of the population. At the same time, small

enterprises encourage new entrepreneurs to establish their own businesses and make independent decisions while adapting to market mechanisms. Private entrepreneurship is an important source of economic growth and investment attraction. Through private business, new technologies are introduced, products and services are diversified, and competition is strengthened. Moreover, private entrepreneurship has significant social value: it increases employment, supports local communities, and promotes personal initiative. In Uzbekistan, private entrepreneurship also plays a crucial role in ensuring employment for youth and women.

It is also important to acknowledge the challenges facing the development of small business and private entrepreneurship. Financial constraints, competition, legal and administrative barriers, and a lack of skills can slow business growth. To address these issues, the government has implemented measures such as financial support, legal reforms, capacity-building programs, competition regulation, and promotion of innovation. These initiatives create a favorable environment for entrepreneurs, accelerate business development, and contribute to economic stability. In the future, the growth of small businesses and private entrepreneurship will remain a key strategy for enhancing economic stability, ensuring employment, and fostering a culture of personal initiative in Uzbekistan. Furthermore, through digital transformation, innovation, and integration with global markets, the potential of entrepreneurship will expand. Collaboration between the government and the private sector will continue to be a crucial factor in supporting and advancing small business and private entrepreneurship.

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